

## Retail Payment System

### Payments Between Bank Accounts

Request for views on payments made over the interbank payment network

## Submission Response Template



## Purpose of this template

A1 This template provides details on how to make submissions on this paper and the confidentiality considerations. It also provides the full list of submission questions in the template to assist with written submissions.

## Submissions

A2 We are seeking your feedback on our views and questions raised in this paper, or on any other aspects of the payments between bank accounts landscape that you consider important. Your feedback will help inform whether we start the process of recommending the interbank payment network for designation.

A3 In addition to written submissions using the process set out in this attachment, we also welcome requests to meet to discuss any aspects of this paper and we are also open to conducting facilitated feedback sessions with stakeholder groups. Please contact us if you think either of these alternative engagement options would be beneficial.

A4 You do not need to respond to all the questions raised in this paper, you can instead just respond to the questions that relate to your business operations or experience.

A5 While we will accept range of formats our preference is for submitters to use this template.

A6 Responses can be emailed to [RetailPaymentSystem@comcom.govt.nz](mailto:RetailPaymentSystem@comcom.govt.nz) with 'Interbank payment network request for views paper' in the subject line.

A7 To ensure your feedback can be considered, please provide these to us by 4pm, 25 September 2023.

## Confidentiality

A8 While we intend to publish submissions on our website, we understand that it is important to parties that confidential, commercially sensitive or personal information (confidential information) is not disclosed as disclosure could cause harm to the provider of the information or a third party.

A9 Where your submission includes confidential information, we request that you provide us with a confidential and a public version of your submission. We propose publishing the public versions of submissions on our website. We note that responsibility for ensuring that confidential information is not included in a public version rests on the party providing the submission.

- A10 Where confidential information is included in submissions:
- A10.1 the information should be clearly marked and highlighted in yellow; and
  - A10.2 both confidential and public versions of submissions should be provided by the due date.
- A11 All information we receive is subject to the principle of availability under the Official Information Act 1982 (OIA). There are several reasons that the Commission may withhold information requested under the OIA from disclosure. This includes, most relevantly, where:
- A11.1 release would unreasonably prejudice the commercial position of the supplier or subject of the information;
  - A11.2 withholding the information is necessary to protect the privacy of natural persons; and
  - A11.3 we received the information under an obligation of confidence, and if we were to make that information available it would prejudice the supply of similar information to us (by any person) where it is in the public interest that such information continues to be supplied to us.
- A12 If we consider that any of these potential reasons for withholding apply, we must still consider the public interest in release. As the principle of availability applies, the information may only be withheld if the potential harm from releasing it is greater than the public interest in disclosure. This 'balancing exercise' means that in some cases information can be released where nonetheless there is some possible harmful effect that might appear to justify withholding it.
- A13 We do not need to receive an OIA request for information for the principle of availability to apply. We can release information that in our assessment should be made publicly available. We will not disclose any confidential or commercially sensitive information in a media statement or public report, unless there is a countervailing public interest in doing so in a particular case. Such cases are likely to be rare.
- A14 We will consider any request from a party who wishes to keep their identity and/or the content of their submission anonymous. However, this request must be discussed with us first before the submission is provided to us. Submitters must justify any request for anonymity by providing reasons.
- A15 Table A1 provides the full list of our submission questions.

Table B1 Full list of our submission questions

Questions on New Zealand's payments between bank accounts landscape	
1	<p><b>Do you agree that Eftpos card use is likely to continue to decline? If not, why not?</b></p> <p>We agree that Eftpos card usage is likely to continue to decline.</p>
2	<p><b>Do you agree with our assessment of the factors contributing to the decline in Eftpos card use? If not, why not?</b></p> <p>We agree with the Commission's assessment of the contributing factors to Eftpos decline.</p>
3	<p><b>What do you see as the barriers to innovation and success for Eftpos?</b></p> <p>Sufficient scale and usage of the technology to justify continued investment is a significant barrier to continued innovation of the Eftpos product/network.</p>
4	<p><b>Do you agree with our view that the decline in Eftpos card use is reducing the competitive pressure on the debit card networks for in-person payments and that this may have a detrimental impact on consumers and merchants over time? If not, why not?</b></p> <p>Yes. We also note that many consumers do not understand the differences between an Eftpos card and debit card, further contributing to a lack of support for the Eftpos standard.</p>
5	<p><b>Do you agree with our view that competitive pressure in the payments between bank accounts landscape could be increased by enabling an environment where payment providers develop innovative options to make bank transfers? If not, why not?</b></p> <p>Yes, we agree with this view. As stated, bank transfers benefit from fast settlement and low fees for participants. Our interbank payment network is already successfully used for other use cases such as direct debit, direct credits, bulk payments, and others.</p> <p>Enabling payments between bank accounts via fast, secure and standardised APIs is an essential first step for allowing payment providers to innovate on the consumer experience and allow the benefits of bank transfer payments to be more widely applied in different environments. Access to the network also ensures third-parties can more easily enter the market and increase competitive pressure with new innovations.</p>
Questions on the key features of traditional bank transfers	
6	<p><b>Do you agree that we have captured the existing benefits and problems with the traditional method of initiating bank transfers? If not, what other benefits or problems exist?</b></p> <p>We agree with the stated benefits and problems of the traditional method of initiating bank transfers and would additionally include the following:</p> <p>Benefits:</p> <ul style="list-style-type: none"> <li>• Consumers and merchants have high levels of trust and familiarity with existing bank transfers.</li> </ul>

	<ul style="list-style-type: none"> <li>Bank transfer payments for online purchases that are made securely via a customer’s banking app have the potential to reduce the ongoing impact of existing common debit/credit card phishing scams online.</li> </ul> <p>Problems:</p> <ul style="list-style-type: none"> <li>Bank transfers cannot currently be easily or safely integrated into existing merchant software or processes, e.g. POS systems or payroll software. As such the use of bank transfers is currently closer to cash than a digital payment.</li> <li>Verifying bank transfer payments is slow and cumbersome, and exposes consumers to potential privacy issues, e.g. showing their phone screen with banking app data to a store employee to confirm payment.</li> </ul>
<b>Questions on methods to gain access to the interbank payment network</b>	
<b>7</b>	<p><b>Do you agree with how we have described and ranked the different methods for payment providers to access the interbank payment network to initiate payments? If not, why?</b></p> <p>Yes, in our view this is an accurate representation of the different access methods to the interbank payment network.</p>
<b>8</b>	<p><b>Are there other key features of the payment initiation network access methods you would like to draw to our attention?</b></p> <p><b>Classification of APIs:</b></p> <p>The differentiation between “reverse engineering” and screen-scraping is a technical one. The method of access, where consumers provide their account username/password details to the third-party, is the same across both.</p> <p>It may be useful to differentiate APIs based on the method of access:</p> <ul style="list-style-type: none"> <li>“Credential sharing” which includes screen-scraping and reverse engineering requires users to provide their username and password to a third-party for access.</li> <li>“OAuth” APIs (like Payments NZ’s Standards) are based on the OAuth framework, which are also used widely across the web for services like “Login with Facebook/Google/Apple”. No end-user login credentials are shared to third-parties when using OAuth-based APIs.</li> </ul> <p>In this classification, OAuth style APIs could be standardised, or bespoke, but both offer similar guarantees around security for consumers when implemented correctly.</p> <p><b>Reverse engineered bank app access and screen scraping and phishing risk:</b></p> <p>We agree with the assessment of reverse engineered bank app access and screen scraping, but we would like to note our view that while there has been no publicly reported security incidents or data breaches across any widely used screen-scraping services (and that we also believe these services operate with good intentions and a reasonable security profile), the promotion of credential sharing as a safe method of account access still carries risk to consumers due to “look-alike” phishing scams.</p>
<b>Questions on the environment required to support innovation in options to make bank transfers</b>	

9	<p><b>Do you agree that these API related requirements are sufficient to enable an environment where payment providers can develop innovative options to make bank transfers? If not, why?</b></p> <p>We believe that in addition to agreed and implemented standards, a single, standardised accreditation and due diligence process will have the most benefit to efficient partnering between banks and third parties.</p>
<p><b>Questions on the benefits from a more competitive and efficient interbank payment network</b></p>	
10	<p><b>Do you agree with our view of the long-term benefits to merchants and consumers from the development of innovative options to make bank transfers? If not, why?</b></p> <p>Yes, we agree with the assessment of long-term benefits to merchants and consumers and we are also of the view that there are many more benefits. Given the right regulatory environment those benefits could include:</p> <ul style="list-style-type: none"> <li>● Faster payment authorisation.</li> <li>● Easier, socially accepted methods for sharing costs between individuals, further reducing the social cost of limited payment options.</li> <li>● Safer payments through third party verification of payees.</li> </ul>
<p><b>Questions on industry open API standards</b></p>	
11	<p><b>Do you consider that the existing industry open API standards are a good starting point to enable innovative options to make bank transfers?</b></p> <p>Yes, we support the API Standard developed by Payments New Zealand through the API Centre.</p>
12	<p><b>Do you consider the future of industry open API standards will enable innovative options to make bank transfers?</b></p> <p>Yes, we agree the standards are critical for enabling innovative options for bank transfers and the features provided have sufficient coverage to allow for many unique use cases to be built.</p>
13	<p><b>What gaps are there in the open API standards for innovative options to make bank transfers?</b></p> <p>We believe the Payments New Zealand API Standards v2.1 are a good baseline technical framework that allows providers to make innovative options for bank transfers, and support the development of v2.3 for enduring payment consents.</p> <p>We would encourage the standards to adopt a requirement for secure methods of handoff between third-party and bank, e.g. “app to app transitions” and other phishing-resistant methods. In the UK and EU, PSD2 legislation also mandated the use of Strong Customer Authentication (SCA) which contributed to the use of app-to-app redirection as a convenient way to implement additional authentication factors.</p>
<p><b>Questions on the key barriers preventing efficient access to the interbank payment network</b></p>	

14	<p><b>Do you agree that the key barrier preventing payment providers from gaining efficient access to the interbank payment network is that the banks have not universally built open APIs? If not, why?</b></p> <p>This is certainly a contributing factor, but we note that an agreed-upon accreditation process, fees, and terms of engagement are equally as significant than the technical development of APIs. We believe the main contributing factor is that there is no regulation enforcing market wide bank provider readiness.</p>
15	<p><b>Do you agree that the main reason the banks have not universally built open APIs is due to the uncertainty of commercial incentives for them to do so? If not, why?</b></p> <p>This may be a contributing factor, but banks may have many other valid reasons. Some additional factors could be:</p> <ul style="list-style-type: none"> <li>● Uncertainty around regulatory requirements encouraging banks to take a “wait and see” approach to implementation.</li> <li>● Lack of demand from third-parties due to the uncertainty around bank implementation of the standards.</li> <li>● Lack of demand from consumers and merchants due to low understanding and expectation around Open Banking, and a lack of awareness of use cases that will be enabled (again - due to the current challenges for third-parties to build and market products that require open APIs from a majority of banks).</li> </ul>
16	<p><b>Do you consider that the industry implementation plan creates sufficient certainty that the banks will build the open APIs? And do you consider that the minimum delivery dates are appropriate? If not, why?</b></p> <p>While the Implementation Plan is a welcome development for the API Standards, material uncertainties still remain:</p> <ul style="list-style-type: none"> <li>● As noted, API Centre membership is not compulsory and a bank could opt-out at any time, which would mean that third-party services that have joined the API Centre may be unable to serve a significant portion of the market.</li> <li>● Banks can apply for exemptions from specific elements of the standards, which erodes the guarantees around shared implementation and user experience that standards development aims to achieve.</li> <li>● Beyond the technical standards, banks may differ in the use cases they allow APIs to be used for (e.g. restrictions on the type of merchant). In this case the APIs can be “built” but may not be practically useful.</li> </ul> <p>The Implementation Plan’s May 2024 deadline for Payment Initiation feels appropriate as a timeline.</p> <p>However, we think it is disappointing that Kiwibank has arranged for an exemption to the planned dates by a full two years. This seems like an excessively long time-frame for Kiwibank to reach parity with the larger banks on API standards. A six-month delay would be appropriate and still allows Kiwibank to deploy their service with the benefit of learning from the public implementations of the Australian banks.</p>

17	<p><b>Aside from the network access issues, are there other issues with the interbank payment network that reduce competition or efficiency? For example, the speed of payments or amount of information attached to payments?</b></p> <p>As noted, account name verification (Confirmation of Payee) is a serious problem and we agree with the recent announcement by banks to address this.</p>
<p><b>Questions on efficient partnering between banks and payment providers</b></p>	
18	<p><b>What do you consider are the main barriers to negotiating agreements between banks and payment providers for access to the interbank payment network (assuming open APIs are built)?</b></p> <p>Some of the main barriers include:</p> <ul style="list-style-type: none"> <li>● Banks need to individually assess the viability, security, and compliance with New Zealand regulation for any third-party organisations wishing to reach an agreement for API access, which can be a costly process.</li> <li>● API-initiated bank transfer payments are novel in the New Zealand market and a lack of regulation in this area means that compliance requirements are subject to differing interpretations.</li> </ul>
19	<p><b>Does the API Centre’s partnering project enable efficient partnering between banks and payment providers? If not, what would be required to enable efficient partnering?</b></p> <p>The standardised bilateral agreement template has created a good starting point for negotiations between third parties and banks, but tasks required to partner are still left to the individual organisations, with the barriers mentioned above.</p> <p>We believe that in addition to agreed and implemented standards, a single, standardised accreditation and due diligence process will have the most benefit to efficient partnering between banks and third parties, for example the process implemented by OBIE in the UK. Standardising accreditation brings many benefits to partnering:</p> <ul style="list-style-type: none"> <li>● Third-party organisations wishing to apply for API access have a clear set of requirements they can evaluate themselves against.</li> <li>● Third-party organisations can clearly evaluate the investment required to meet the accreditation requirements.</li> <li>● Predictable time frames can be provided to third-parties wishing to become accredited, without requiring them to individually schedule with multiple different commercial entities.</li> <li>● Accreditation fees (if any) could be clearly specified upfront.</li> <li>● Banks are not required to invest in their own individual accreditation processes, with less duplicate work across the industry.</li> </ul> <p>Standardised pricing and contract terms may be useful, but we don’t see this as necessary for these to be identical between banks and some flexibility in terms may be beneficial.</p> <p>We would support Payments New Zealand and the API Centre playing such a role with regulatory oversight, through their capacity as operator of the interbank payments network.</p>



Questions on the interbank payment network	
20	<p><b>Do you agree with how we have defined the interbank payment network? If not, how do you consider it should be defined?</b></p> <p>Yes, we agree.</p>
21	<p><b>Do you see any issues with how we have defined the interbank payment network? If so, what issues?</b></p> <p>No issues.</p>
22	<p><b>Do you agree we have captured the correct payment products in the interbank payment network?</b></p> <p>Yes, we agree.</p>
23	<p><b>Do you agree we have captured the correct network operators of the interbank payment network?</b></p> <p>Yes, we agree.</p>
24	<p><b>Do you agree we have captured the correct class of participants in the interbank payment network?</b></p> <p>Yes, we agree.</p>
25	<p><b>Do you agree we have identified the relevant interbank payment network rules? If not, what other network rules are relevant?</b></p> <p>Yes.</p>
26	<p><b>Do you consider there are any other regulatory requirements in other New Zealand laws that we should take into account in deciding whether to recommend that the interbank payment network is designated?</b></p> <p>No answer.</p>

Questions on possible regulatory interventions	
27	<p><b>Do you consider that a designation of the interbank payment network is a useful first step towards enabling an environment where payment providers can launch innovative new options to make bank transfers in New Zealand? If not, why?</b></p> <p>Yes.</p>
28	<p><b>How effective do you consider our regulatory powers would be at addressing the barriers set out in this paper?</b></p> <p>We believe the Commission's powers to be sufficient to effectively address the mentioned barriers and encourage the approach of applying powers to help drive and support the industry-led efforts undertaken by Payments New Zealand and the API Centre.</p>
29	<p><b>Do you consider that a designation of the interbank payment network, and the subsequent use of our regulatory powers, would promote competition and</b></p>

**efficiency in the retail payment system for the long-term benefit of merchants and consumers in New Zealand? If not, why?**

Yes.